



ShowBiz

Pizza

Time,

Inc.

1991

Annual

Report

Financial Highlights

(Thousands, except per share data)

	1991	1990	1989
Revenues	\$208,118	\$181,558	\$167,443
Income before income taxes	18,933	13,899	2,817
Net income	\$ 17,883	\$ 13,221	\$ 2,454
Earnings per share:			
Primary	\$ 1.28	\$.97	\$.17
Fully diluted	\$ 1.28	\$.96	\$.17
Other information:			
Cash provided by operations	\$ 35,849	\$ 29,630	\$ 19,736
Purchases of property and equipment	25,088	21,471	15,730
Total assets	114,753	99,196	91,341
Long-term obligations	20,468	25,788	36,731
Shareholders' equity	71,690	52,734	35,636
Return on average shareholders' equity	28.7%	29.9%	7.1%
Increase in comparable store sales:			
ShowBiz and Chuck E. Cheese's	2.2%	4.9%	8.3%
Monterey's Tex-Mex Cafe	10.9%	25.4%	(10.7%)
Number of restaurants at year end:			
ShowBiz and Chuck E. Cheese's:			
Company operated	159	144	130
Franchise	113	123	127
	272	267	257
Monterey's Tex-Mex Cafe	27	27	27
	299	294	284

To Our Stockholders:

We are happy to report that the Company and its shareholders enjoyed a very successful 1991. Each year, management sets aggressive goals by which performance can be measured. For 1991 we established the following objectives:

- Continued comparable store sales increases.
- Development of 12-15 new Chuck E. Cheese's restaurants that would achieve annual revenues greater than 10% over our Company average.
- Continued support, evolution, and performance of our franchise system.
- Continued strong financial improvement in Monterey's Tex-Mex Cafe restaurants.
- Earnings growth of at least 25% while continuing to strengthen the overall financial position of the Company.

We would like to take this opportunity to share with you our success relative to these goals.



Richard M. Frank, chairman, chief executive officer and John T. Spaight, president, chief operating officer

ShowBiz/Chuck E. Cheese's

Comparable store sales increased by 2.2% over 1990 levels and have now increased for 24 consecutive quarters. Although same store sales growth was less dramatic than in prior years, there is no doubt that our core store performance set the stage for success during the year. The continued vitality of existing store sales remains the foundation upon which we can achieve the full growth potential of the Company.

A key component of our same store sales increases over the years has been the evolution of our concept through our remodel program. Each year since 1986 we have increased the number of locations we have renovated. In 1991, we completed 41 locations, with 13 properties remaining to be remodeled in 1992. In 1992 we will also begin our second phase of remodels as we readdress those properties completed three-five years ago. The attractiveness of our facilities remains a key element of customer satisfaction and management is committed to maintain quality facilities throughout the system.

Our expansion efforts increased in 1991 as we opened 14 new Chuck E. Cheese's locations. We penetrated major new markets in New Jersey, New England, Maryland, Florida and Pennsylvania, and the results have been outstanding. Units which have been opened in the last two years are outperforming our Company average sales by more than 10%. As a result of our success, we have decided to accelerate our development plans and will open at least 60 new locations during the next two fiscal years.

The performance of our franchise system also continued to improve in 1991. Members of the franchise community formally endorsed the Company's remodel program at their 1991 annual convention and all franchised locations will be remodeled to Company standards by the end of 1993. This is a significant statement from our franchise community which we believe reflects their commitment to the long-term viability of our business.

Monterey's Tex-Mex Cafe

The performance of our value-oriented Tex-Mex concept continued to improve over prior year results and has encouraged us to commit to a limited expansion test of the concept.

Comparable store sales increased by 10.9% over a very strong 1990 performance which had seen same store sales increases in excess of 25%. Earnings of \$613,000 were generated by the concept compared to a prior year loss of \$204,000. Cash provided by operations of Monterey's exceeded \$2.0 million.

We believe that 1992 will be a key year in which Monterey's can prove its potential as a long-term winner for the Company. Two units will be opened in new markets. We will closely monitor the performance of these units while continuing to build upon the recent success of the existing locations.

Financial Results

As a result of these accomplishments, the Company was able to exceed its earnings growth objective for the year as net income increased by 35.3% to \$17.9 million. This allowed the Company to reduce long-term debt by \$5.7 million while funding all remodels and new store development from operational cash flow.

Shareholders' equity has more than doubled since the end of 1989 to \$71.7 million at December 27, 1991. Our shareholders benefited from our success in 1991 through the more than 100% increase in the value of shares of common stock.

Our Future

We believe that the performance of 1991 and the past several years, positions us well for the 1990's. With our accelerated expansion plans, the momentum of our existing locations, and the repositioning of Monterey's Tex-Mex Cafe, the future should be both exciting and rewarding.

Yet, any business or company is only as good as its people. And, we believe ours are the best. In this Annual Report you will meet a number of the people who comprise the "ShowBiz/Chuck E. Cheese's/Monterey's team". They are representative of thousands of employees who are committed to an uncompromising standard of complete guest satisfaction. It is because of these people that our future is most assured.

We sincerely thank this dedicated team, our franchisees, loyal suppliers and you, our shareholders, who have collectively made our success so rewarding. On behalf of management and the Board



of Directors, let us say that we're proud of our accomplishments but remain firmly focused on the future.

Thanks again for your support as we look to an outstanding 1992.

Sincerely,

Richard M. Frank

Richard M. Frank
Chairman, Chief Executive Officer

John T. Spaight

John T. Spaight
President, Chief Operating Officer

Key players in new restaurant development and acquisitions include Dick Huston, executive vice-president - marketing & development; Alice Winters, vice-president - director of real estate; Ron Saupe, executive vice-president - general counsel & secretary; and Mike Magusiak, executive vice-president - treasurer & chief financial officer.

From the quality of

our menu items

and attentiveness

of our staff to the

fun of our games

and consistent

operation of our

rides, we focus on

the needs of the

family so that our

guests can focus

on fun. At

right, Joy and

Michael

Piscopo of

Mesquite,

Texas enjoy

a meal with sons

Michael and Aaron

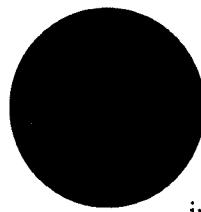
as part of their

family outing at

Chuck E. Cheese's.



"All for fun and fun for all!"



he cornerstone of our business is fun, and our concept of fun has made its mark on the food and entertainment industry. The star of our show is Chuck

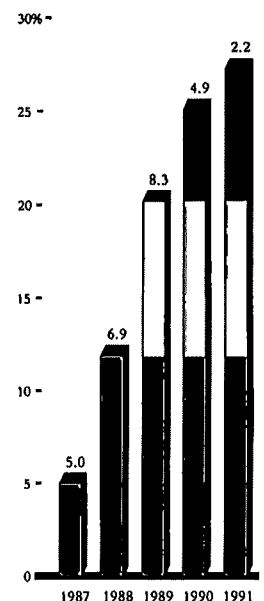
E. Cheese; his stage is our restaurants, and his audience is our valued guest. His fans include bright-eyed toddlers and gleeful grade-schoolers, as well as grateful moms and delighted dads. The happiness of our guests is the focus of our entire team's effort.

Parents return for the quality of the experience.

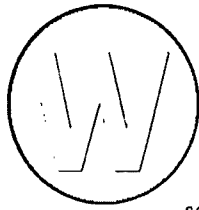
We create valuable experiences by hosting celebrations of family. We attend to every detail so that families haven't a care beyond having fun and making moments to treasure. Kids long remember the magic of meeting Chuck E., the larger-than-life characters who sang and danced on a stage of light and sound, and the prizes won by playing our skill games. And parents won't soon forget the helping hands that gave assistance, the cheerful member of our team who made their day special, the freshly-baked pizza that made for a wholesome meal, and the tokens which added to an enjoyable family affair.

So while our young guests come for the fun of it all, parents return for the quality of the experience.

**Comparable Store Sales
Growth of ShowBiz/
Chuck E. Cheese's**



"First we'll be the best. Then we'll be first."



e believe that if you are not serving the guest, then you should be serving someone who is. Our commitment to service is evident in everything we do, and we strive to do it better than anyone in the industry. At every level, from our "star cast" to our top management, service is viewed as both a state of mind and a standard of performance.

Anticipating the needs of our guests isn't enough. We also strive to exceed their expectations. We insist that our restaurants be clean and comfortable, so that our guests will visit again and again.

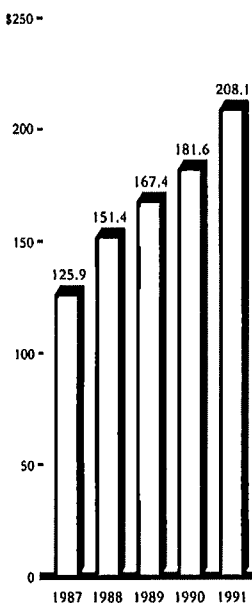
Our operating philosophy is "every guest leaves happy."

Our pizza and sandwiches not only taste good and are served fast, but they are made from the finest ingredients. Our salad bar of garden fresh vegetables is second to none. And last but not least, our games and rides must be more than fun...they must be magical.

By putting service first and executing consistently, we ensure not only that every guest leaves happy, but that the foundation of our lasting success remains intact.

Consolidated Revenues

(in millions)



* Quotation from video, *Do Right With Lou Holtz of Notre Dame*.



Any

business

or

company

is

only

as

good

as

its

people.

Selected Financial Data

(Thousands, except per share data)

	1991	1990	1989	1988	1987
Operating results (1):					
Revenues	\$208,118	\$181,558	\$167,443	\$151,364	\$125,857
Costs and expenses	187,295	164,305	161,467	149,596	119,327
Operating income	20,823	17,253	5,976	1,768	6,530
Other income (expenses)	(1,890)	(3,354)	(3,159)	(1,324)	(700)
Income before income taxes and extraordinary item	18,933	13,899	2,817	444	5,830
Income taxes	1,050	678	363	141	429
Income before extraordinary item	17,883	13,221	2,454	303	5,401
Extraordinary item				(528)	
Net income (loss)	\$ 17,883	\$ 13,221	\$ 2,454	\$ (225)	\$ 5,401
Per share (2):					
Primary:					
Income before extraordinary item	\$ 1.28	\$.97	\$.17	\$.05	\$.54
Net income (loss)	1.28	.97	.17	(.05)	.54
Weighted average shares outstanding	13,700	13,254	12,165	9,585	9,585
Fully diluted:					
Income before extraordinary item	\$ 1.28	\$.96	\$.17	\$.05	\$.54
Net income (loss)	1.28	.96	.17	(.05)	.54
Weighted average shares outstanding	13,728	13,367	12,711	9,585	9,585
Cash flow data:					
Cash provided by operations	\$ 35,849	\$ 29,630	\$ 19,736	\$ 12,462	\$ 13,881
Purchases of property and equipment	25,088	21,471	15,730	8,274	19,978
Balance sheet data:					
Total assets	\$114,753	\$ 99,196	\$ 91,341	\$ 92,489	\$ 92,597
Long-term obligations (including redeemable preferred stock)	20,468	25,788	36,731	40,868	48,631
Shareholders' equity	71,690	52,734	35,636	33,315	30,304
Number of restaurants at year end:					
ShowBiz and Chuck E. Cheese's:					
Company operated	159	144	130	128	125
Franchise	113	123	127	134	140
	272	267	257	262	265
Monterey's Tex-Mex Cafe	27	27	27	58	58
	299	294	284	320	323

(1) References to 1991, 1990, 1989, 1988, and 1987 are for fiscal years ended December 27, 1991, December 28, 1990, December 29, 1989, December 30, 1988 and January 1, 1988, respectively. During 1989, the Company retroactively applied Statement of Financial Accounting Standards No. 96. Certain reclassifications have been made to conform to the fiscal year 1991 presentation. See Notes to Consolidated Financial Statements elsewhere herein.

(2) Per share information has been adjusted to give effect to three-for-two stock splits in the form of 50% stock dividends of the Company's common stock on March 20, 1992 and March 26, 1991, and a one-for-ten reverse split of the Company's common stock on October 19, 1988. No dividends on common stock were paid in any of the years presented.

Quarterly Financial Information

(Thousands, except per share data)

	Revenues	Income Before Income Taxes	Net Income	Primary Earnings Per Share ⁽¹⁾	Stock Market Data ⁽¹⁾	
					High	Low
1991						
1st Quarter	\$ 53,330	\$ 6,609	\$ 6,242	\$.45	17 3/8	9 1/2
2nd Quarter	50,640	4,070	3,844	.27	21 1/8	16 3/8
3rd Quarter	54,242	5,376	5,079	.37	23 3/8	18
4th Quarter	49,906	2,878	2,718	.19	22 1/8	16 3/8
	<u>\$208,118</u>	<u>\$18,933</u>	<u>\$17,883</u>	1.28	23 3/8	9 1/2
1990						
1st Quarter	\$ 47,467	\$ 5,053	\$ 4,820	\$.37	7 3/4	5 1/4
2nd Quarter	43,051	2,594	2,465	.18	12 1/8	7 3/8
3rd Quarter	48,368	4,596	4,366	.32	12 1/8	8 3/8
4th Quarter	42,672	1,656	1,570	.11	11 1/8	9
	<u>\$181,558</u>	<u>\$13,899</u>	<u>\$13,221</u>	.97	12 1/8	5 1/4

(1) Per share information has been adjusted to give effect to three-for-two stock splits in the form of 50% stock dividends of the Company's common stock on March 20, 1992 and March 26, 1991.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

1991 Compared to 1990

Revenues for fiscal 1991 increased by 14.6% to \$208.1 million from \$181.6 million in 1990. Revenue generated by the Company's ShowBiz and Chuck E. Cheese's restaurants increased by 14.8% to \$191.2 million in 1991 from \$166.5 million in 1990, due primarily to the addition of 15 Company restaurants in 1991 and 17 Company restaurants in 1990, and a 2.2% increase in sales from the Company's ShowBiz and Chuck E. Cheese's restaurants which were open during all of 1991 and 1990 ("comparable store sales"). Revenues from the Company's Monterey's Tex-Mex Cafe restaurants increased to \$16.9 million in 1991 from \$15.1 million in 1990 due primarily to a 10.9% increase in comparable store sales.

Operating income increased significantly to \$20.8 million in 1991 from \$17.3 million in 1990 due to the increase in comparable store sales, the restaurant expansion in both years and improved operating margins in both restaurant concepts.

A summary of the results of operations of the Company as a percentage of revenue for the last three fiscal years is shown below.

	1991	1990	1989
Revenue	100.0%	100.0%	100.0%
Costs and expenses:			
Costs of sales	49.6%	49.9%	50.9%
Selling, general and administrative	15.8%	16.7%	17.5%
Depreciation and amortization	7.8%	7.2%	6.8%
Provision for (gain) loss on property transactions	0.1%	0.0%	2.7%
Other operating expenses	16.7%	16.7%	18.5%
	<u>90.0%</u>	<u>90.5%</u>	<u>96.4%</u>
Operating income	<u>10.0%</u>	<u>9.5%</u>	<u>3.6%</u>

ShowBiz and Chuck E. Cheese's

Revenues

The 14.8% increase in revenues from the Company's ShowBiz and Chuck E. Cheese's restaurants in 1991 over 1990 resulted primarily from restaurant expansion in 1991 and 1990 and a 2.2% increase in comparable store sales over 1990 levels. Average comparable store sales per restaurant increased to approximately \$1,297,000 in 1991 from approximately \$1,268,000 in 1990. The Company believes that

price increases of approximately 4.0% in 1991 were largely responsible for the increase in comparable store sales. The Company opened eight new restaurants in 1990 and 14 new restaurants in 1991. These restaurants had significantly higher average sales volumes than the average Company restaurant. The 1990 new restaurants, which had a sales history in excess of one year, averaged \$1,476,000 in sales during 1991.

Other factors which contributed to revenues were the remodeling of 41 restaurants in 1991 and 33 restaurants in 1990, and the addition of new games, rides and entertainment attractions.

Revenue from franchise fees and royalties decreased slightly by .6% from 1990 to 1991. Franchise royalty revenue was favorably impacted by an increase in comparable franchise store sales of 1.3% for restaurants open all of 1991 and 1990, and by an increase in the royalty fee charged to franchisees to 3.4% of restaurant sales in 1991 from 3.25% in 1990. Franchise royalty revenue was reduced as a result of a net decrease in franchise restaurants to 113 at year end 1991 from 123 at year end 1990. During 1991, 13 franchise restaurants closed, the Company purchased one franchise restaurant and four new franchise restaurants opened.

Costs and Expenses

Costs and expenses as a percentage of revenues declined to 89.4% in 1991 from 89.6% in 1990.

Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased to 18.1% in 1991 from 18.6% in 1990 primarily as a result of menu price increases. Labor expenses as a percentage of restaurant sales increased slightly to 27.8% in 1991 from 27.6% in 1990 primarily due to a federal minimum wage increase in April 1991.

Selling, general and administrative expenses as a percentage of revenues declined to 16.0% in 1991 from 17.0% in 1990 due to the increase in revenues without a corresponding increase in corporate overhead expenses.

Depreciation and amortization expense increased as a percentage of revenues to 7.7% in 1991 from 7.0% in 1990 due to restaurant remodel costs and the addition of new restaurants.

The Company provided for a loss on property transactions of \$599,000 in 1991 primarily due to replacement of signage arising from the name change from ShowBiz to Chuck E. Cheese's in connection with the unification of its

Management's Discussion and Analysis, Con't.

ShowBiz and Chuck E. Cheese's concepts within certain markets and also to the replacement of certain assets due to the remodeling of restaurants.

Operating Income

As a result of the changes in revenues and expenses discussed above, operating income increased by 16.1% to \$20.2 million in 1991 from \$17.4 million in 1990.

Monterey's Tex-Mex Cafe

Revenues

Revenues increased to \$16.9 million in 1991 from \$15.1 million in 1990 due primarily to comparable store sales increases of 10.9%. The Company introduced television advertising in the second quarter of 1991 which favorably impacted comparable store sales. Price increases were responsible for approximately one-seventh of the increase in comparable store sales.

Costs and Expenses

Costs and expenses declined as a percentage of revenues to 96.2% in 1991 from 101.0% in 1990.

Cost of sales declined as a percentage of revenues to 61.7% in 1991 from 63.6% in 1990.

The cost of food and beverage items as a percentage of restaurant sales improved to 27.6% in 1991 compared to 28.5% in 1990 due primarily to increased comparable store sales.

Labor expenses as a percentage of restaurant sales decreased to 31.5% in 1991 from 32.3% in 1990 primarily as a result of increased comparable store sales.

Selling, general and administrative expenses as a percentage of revenues increased slightly to 13.9% in 1991 from 13.6% in 1990 primarily due to increased advertising. The Company changed from radio to television advertising in the second quarter of 1991 resulting in higher advertising expense.

Other operating expenses increased 7.0% in 1991 from 1990 and declined as a percentage of revenues to 13.8% in 1991 from 14.5% in 1990 as a result of an increase in revenues without a proportionate increase in expenses.

In 1991, income of \$301,000 was recognized in provision for gains and losses on property transactions related to the selling of restaurants closed in 1989 for an amount greater than anticipated when the closed store reserve was established.

Operating Income (Loss)

Operating income increased to \$640,000 in 1991 from an operating loss of \$135,000 in 1990 due to increased comparable store sales, improved operating margins and the decrease in the closed location reserve.

Consolidated Income

Interest expense declined to \$2.2 million in 1991 from \$3.8 million in 1990 due primarily to reductions in long-term debt of \$5.7 million in 1991 and \$10.2 million in 1990. The Company's net income increased by 35.3% to \$17.9 million in 1991 from \$13.2 million in 1990 due to the changes in revenues and expenses discussed above. The Company's primary earnings per share increased to \$1.28 per share in 1991 from \$.97 per share in 1990.

1990 Compared to 1989

Revenues for fiscal 1990 increased by 8.4% to \$181.6 million from \$167.4 million in 1989. Revenue generated by the Company's ShowBiz and Chuck E. Cheese's restaurants increased by 11.0% to \$166.5 million in 1990 from \$150.0 million in 1989, due primarily to a 4.9% increase in comparable store sales and the addition of 17 restaurants in 1990. Revenues from the Company's Monterey's Tex-Mex Cafe (formerly Monterey House) restaurants declined to \$15.1 million in 1990 from \$17.4 million in 1989, due to the closing of 31 Monterey House restaurants during 1989.

Operating income increased significantly to \$17.3 million in 1990 from \$6.0 million in 1989, due in part to a \$4.6 million charge related to Monterey House restaurant closings in 1989. The increase in operating income was also due to the increase in comparable store sales as discussed above and improved operating margins in both restaurant concepts.

In June 1989, the Company purchased property and equipment interests related to 53 ShowBiz restaurants which it had formerly leased in a sale/leaseback transaction. As a result thereof, the Company incurred an increased depreciation expense of approximately \$1.2 million, decreased other operating expenses of approximately \$2.0 million and decreased interest income of \$1.2 million in 1990 as compared to 1989. The Company's cash flow from operations was not materially affected as a result of this purchase.

ShowBiz and Chuck E. Cheese's

Revenues

The 11.0% increase in revenues from the Company's ShowBiz and Chuck E. Cheese's restaurants in 1990 over 1989 resulted primarily from a 4.9% increase in comparable store sales over 1989 levels; the Company's acquisition of nine restaurants from franchisees or former partners of the Company and the opening of eight new restaurants. Average comparable store sales per restaurant increased to approximately \$1,269,000 in 1990 from approximately \$1,210,000 in 1989. The Company believes that price increases were responsible for approximately one-third of the increase in comparable store sales.

Other factors which contributed to the increase in revenues were the remodeling of 33 restaurants in 1990 and 17 restaurants in 1989, and the continuing success of the Company's marketing campaign, menu expansion and new entertainment attractions.

Revenue from franchise fees and royalties increased by 24.6% from 1989 to 1990. Franchise royalty revenue was positively impacted by an increase in comparable franchise store sales of 6.5% for restaurants open all of 1990 and 1989, and by an increase in the royalty fee charged to franchisees to 3.25% of restaurant sales in 1990 from 3.0% in 1989. The number of franchise restaurants open at year end 1990 and 1989 were 123 and 127, respectively. During 1990, four franchise restaurants closed, the Company purchased five franchise restaurants and five new franchise restaurants opened.

Costs and Expenses

Costs and expenses declined as a percentage of revenues to 89.6% in 1990 from 91.1% in 1989, due primarily to the Company's 1989 asset purchase discussed previously and higher per restaurant sales volumes in 1990 relative to 1989.

Cost of food, beverage, prize and merchandise items as a percentage of restaurant sales decreased to 18.6% in 1990 from 19.0% in 1989 primarily due to menu price increases. Labor expenses as a percentage of restaurant sales increased to 27.6% in 1990 from 27.2% in 1989 primarily due to a federal minimum wage increase in April 1990.

Selling, general and administrative expenses declined as a percentage of revenues to 17.0% in 1990 from 17.6% in 1989 due to an

increase in revenues which did not require a corresponding increase in corporate overhead expenses.

Operating Income

As a result of the changes in revenues and expenses discussed above, operating income increased by 29.7% to \$17.4 million in 1990 from \$13.4 million in 1989.

Monterey's Tex-Mex Cafe

Revenues

Revenues declined by 13.3% to \$15.1 million in 1990 from \$17.4 million in 1989 primarily due to the closure of 31 restaurants in 1989.

Comparable store sales from the restaurants which were operated during all of 1990 and 1989 increased 25.4%. The remodeling of 27 restaurants in 1989 was the primary factor in the increase in comparable store sales.

Costs and Expenses

Cost of sales declined significantly as a percentage of revenues to 63.6% in 1990 from 70.8% in 1989 due primarily to the closing of unprofitable restaurants.

Selling, general and administrative expenses as a percentage of revenues declined to 13.6% in 1990 from 17.3% in 1989 primarily due to reductions in corporate administrative expenses associated with the closing of restaurants discussed above and increased comparable store sales.

Other operating expenses declined to 14.5% in 1990 from 19.9% in 1989. This decrease is due primarily to the closing of 31 restaurants in 1989 and increased comparable store sales.

Operating Loss

Operating loss decreased to \$135,000 in 1990 from \$7.4 million in 1989 due primarily to the closing of unprofitable restaurants in 1989, a \$4.6 million loss recorded as a result of these restaurant closings and increased comparable store sales as a result of the remodeling of all operating restaurants in 1989.

Consolidated Income

Interest income declined to \$476,000 in 1990 from \$2.0 million in 1989 due primarily to a \$1.2 million decrease in interest income

Management's Discussion and Analysis, Con't.

attributable to the Company's 1989 asset purchase discussed previously. Interest expense declined to \$3.8 million in 1990 from \$5.2 million in 1989 due primarily to a reduction in long-term debt of \$10.2 million in 1990 and \$4.0 million in 1989.

As a result of the changes in revenues, expenses, and other matters discussed above, the Company generated net income of \$13.2 million in 1990 as compared to \$2.5 million in 1989.

Inflation

The Company's costs of operations, including labor, supplies, utilities, financing and rental costs, are significantly affected by inflationary factors. The Company pays most of its part-time employees rates that are related to federal and state mandated minimum wage requirements. Increases in any such costs would result in higher costs to the Company, which the Company expects would be partially offset by menu price increases and increased efficiencies in operations.

Financial Condition, Liquidity and Capital Resources

Cash provided by operations increased to \$35.8 million in 1991 from \$29.6 million in 1990. The Company's primary requirements for cash relate to planned capital expenditures and debt service.

The Company plans to make capital expenditures of approximately \$32 million to build 25 new Chuck E. Cheese's restaurants, remodel 45 restaurants and enhance the game and entertainment attractions at certain existing restaurants in 1992.

In March 1991, the Company amended its revolving loan agreement to a \$15 million revolving loan agreement available through 1994 with no reduction of the available line for the entire term of the loan agreement. The Company is also required to comply with certain financial ratio tests and capital expenditure limitations during the term of the revolving loan agreement. The amendment to the revolving loan agreement provides the Company with greater flexibility to meet its capital requirements at a reduced interest rate.

The Company is required to make principal reductions on long-term debt, exclusive of obligations under capital leases, of approximately \$622,000 in 1992 and \$12.8 million in 1993. The Company expects that it will satisfy its debt service and capital expenditure require-

ments from cash provided by operations and, to the extent necessary, funds available under the revolving loan agreement. The Company expects to continue its practice of prepaying long-term debt when possible to minimize borrowing costs and reduce financial leverage.

The Company believes it will realize substantial benefit from utilization of approximately \$111 million in net operating loss carryforwards to reduce federal income tax liability. Although the use of such carryforwards could, under certain circumstances, be limited, the Company is presently unaware of the occurrence of any event which would result in the imposition of such limitation. The Company has adopted an amendment to its Restated Articles of Incorporation which is intended to prevent changes in ownership of its Common Stock that would cause such limitation. In addition, the Company has investment tax credit, jobs tax credit and alternative minimum tax credit carryforwards of approximately \$6 million.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 109 "Accounting for Income Taxes" ("SFAS 109") which requires the establishment of a deferred tax asset or liability for the recognition of future deductions or taxable amounts, and operating loss and tax credit carryforwards. Deferred tax expense or benefit is recognized as a result of the change in the asset or liability during a year. Adoption is required for fiscal years beginning after December 15, 1992. The initial effect of applying SFAS 109 may be either reported as the cumulative effect of a change in accounting principle or through retroactive restatement of the financial statements of prior years.

The Company plans to adopt SFAS 109 beginning in 1992 and retroactively restate the financial statements of prior years. Upon adoption of SFAS 109, the Company will recognize a deferred tax asset of approximately \$44 million at December 27, 1991 and retained earnings will increase by an equivalent amount. The Company also will recognize deferred tax expense in prior years which will reduce net income to \$11,598,000, \$8,452,000 and \$1,742,000 in 1991, 1990 and 1989, respectively, although there will be no change to cash provided by operations. In 1992 and future years, the Company believes its effective tax rates will be between 38% to 39% based on current statutory tax rates. There will be no cash impact as a result of applying SFAS 109.

Consolidated Balance Sheets

December 27, 1991 and December 28, 1990
(Thousands, except share data)

	December 27, 1991	December 28, 1990
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,719	\$ 2,029
Accounts receivable, including receivable from related party of \$76 and \$108, respectively	1,704	1,060
Current portion of notes receivable, including receivables from related parties of \$261 and \$12, respectively	356	45
Inventories	2,481	1,836
Prepaid expenses	1,833	1,548
Total current assets	9,093	6,518
Investments, including investment in related parties of \$185 and \$155, respectively	210	155
Property and equipment	93,974	83,168
Other assets:		
Notes receivable, less current portion, including receivables from related parties of \$2,012 and \$649, respectively	3,098	1,139
Deferred charges, less amortization	4,912	5,430
Other, including receivable from related party of \$400 in 1990	3,466	2,786
	11,476	9,355
	<u>\$114,753</u>	<u>\$ 99,196</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Current portion of long-term debt and other long-term liabilities, including payable to related parties of \$253 and \$1,000, respectively	\$ 892	\$ 1,141
Accounts payable and accrued liabilities, including payable to related parties of \$85 in 1990	20,331	18,126
Total current liabilities	21,223	19,267
Long-term debt, including payable to related parties of \$7,750 and \$12,228, respectively, less current portion	18,029	23,691
Deferred credits	1,372	1,407
Other liabilities	847	608
Commitments and contingencies		
Redeemable preferred stock, \$60 par value, redeemable for \$2,976 in 2005	1,592	1,489
Shareholders' equity:		
Common stock, \$.10 par; authorized 20,000,000; 12,538,287, and 12,355,419 shares issued, respectively	1,254	1,236
Capital in excess of par value	132,743	131,347
Deficit	(62,229)	(79,771)
Less 28,390 treasury shares, at both dates, at cost	(78)	(78)
	71,690	52,734
	<u>\$114,753</u>	<u>\$ 99,196</u>

See notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 27, 1991,
December 28, 1990 and December 29, 1989
(Thousands, except per share data)

	1991	1990	1989
Food and beverage revenues	\$152,134	\$133,058	\$123,720
Games and merchandise revenues	51,689	44,367	40,417
Franchise fees and royalties	4,134	4,160	3,338
Joint venture income (loss)	161	(27)	(32)
	<u>208,118</u>	<u>181,558</u>	<u>167,443</u>
Costs and expenses:			
Costs of sales	103,154	90,423	85,328
Selling, general and administrative expenses, including related party expenses of \$(15), \$1,373, and \$1,660, respectively	32,923	30,392	29,352
Depreciation and amortization	16,143	13,148	11,327
Provision for (gain) loss on property transactions	298	(58)	4,479
Other operating expenses	34,777	30,400	30,981
	<u>187,295</u>	<u>164,305</u>	<u>161,467</u>
Operating income	<u>20,823</u>	<u>17,253</u>	<u>5,976</u>
Other income (expenses):			
Interest income, including related party income of \$127, \$101, and \$106, respectively	271	476	2,015
Interest expense, including related party expense of \$843, \$1,709, and \$2,132, respectively	(2,161)	(3,830)	(5,174)
	<u>(1,890)</u>	<u>(3,354)</u>	<u>(3,159)</u>
Income before income taxes	18,933	13,899	2,817
Income taxes	1,050	678	363
Net income	<u>\$ 17,883</u>	<u>\$ 13,221</u>	<u>\$ 2,454</u>
Earnings per common and common equivalent share:			
Primary:			
Net income	<u>\$ 1.28</u>	<u>\$.97</u>	<u>\$.17</u>
Weighted average shares outstanding	<u>13,700</u>	<u>13,254</u>	<u>12,165</u>
Fully diluted:			
Net income	<u>\$ 1.28</u>	<u>\$.96</u>	<u>\$.17</u>
Weighted average shares outstanding	<u>13,728</u>	<u>13,367</u>	<u>12,711</u>

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 27, 1991,
December 28, 1990 and December 29, 1989
(Thousands, except per share data)

	Common Stock		Capital in Excess of Par Value	Deficit	Treasury Stock	
	Shares	Par Value			Shares	Cost
Balances, December 30, 1988	9,585	\$ 959	\$127,187	\$(94,764)	27	\$(67)
Net income				2,454		
Redeemable preferred stock accretion				(103)		
Redeemable preferred stock dividends, \$4.80 per share				(238)		
Stock grant plan	672	67	173			
Integra distribution costs			(31)			
Treasury stock acquired						(1)
Balances, December 29, 1989	10,257	1,026	127,329	(92,651)	27	(68)
Net income				13,221		
Redeemable preferred stock accretion				(103)		
Redeemable preferred stock dividends, \$4.80 per share				(238)		
Stock options exercised	142	14	344			
Stock grant plan	12	1	415			
Warrants exercised	1,944	195	3,259			
Treasury stock acquired					1	(10)
Balances, December 28, 1990	12,355	1,236	131,347	(79,771)	28	(78)
Net income				17,883		
Redeemable preferred stock accretion				(103)		
Redeemable preferred stock dividends, \$4.80 per share				(238)		
Stock options exercised	172	17	523			
Stock grant plan	13	1	466			
Tax benefit from exercise of stock options and stock grants			474			
Stock split costs			(18)			
Cancellation of fractional shares	(2)		(49)			
Balances, December 27, 1991	12,538	\$1,254	\$132,743	\$(62,229)	28	\$(78)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flow

Years Ended December 27, 1991,
December 28, 1990 and December 29, 1989
(Thousands)

	1991	1990	1989
Operating activities:			
Net income	\$ 17,883	\$ 13,221	\$ 2,454
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	16,143	13,148	11,327
Provision for (gain) loss on property transactions	298	(58)	4,479
Compensation expense under stock grant plan	438	373	210
Tax benefit from exercise of stock options and stock grants	474		
Other	(18)	613	684
Net change in receivables, inventory, prepaids, payables and accrued liabilities	631	2,333	582
Cash provided by operations	35,849	29,630	19,736
Investing activities:			
Purchases of property and equipment	(25,088)	(21,471)	(15,730)
Proceeds from disposition of property and equipment	23		633
Payments received on notes receivable	334	477	1,226
Additions to notes receivable	(2,903)		
Change in deferred charges, investments and other assets	(1,470)	(194)	(832)
Cash used in investing activities	(29,104)	(21,188)	(14,703)
Financing activities:			
Proceeds from line of credit	6,270	3,700	
Payments on line of credit	(5,970)		
Reduction of debt and capital lease obligations, including payments to related parties of \$5,301, \$5,019 and \$1,543, respectively	(7,168)	(16,538)	(4,251)
Redeemable preferred stock dividends	(238)	(238)	(238)
Exercise of stock options and warrants, including exercise by related party of \$3,237 in 1990	540	3,812	
Other	511	147	183
Cash used in financing activities	(6,055)	(9,117)	(4,306)
Increase (decrease) in cash and cash equivalents	690	(675)	727
Cash and cash equivalents, beginning of year	2,029	2,704	1,977
Cash and cash equivalents, end of year	\$ 2,719	\$ 2,029	\$ 2,704

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended December 27, 1991,
December 28, 1990 and December 29, 1989

1 Summary of significant accounting policies:

Operations:

ShowBiz Pizza Time, Inc. (the "Company") operates and franchises family restaurant entertainment centers as ShowBiz and Chuck E. Cheese's restaurants, and through BHC Acquisition Corporation ("BAC"), its wholly owned subsidiary, also operates Monterey's Tex-Mex Cafe restaurants.

Fiscal year:

The Company's fiscal year is 52 or 53 weeks and ends on the Friday nearest December 31. References to 1991, 1990 and 1989 are for the fiscal years ended December 27, 1991, December 28, 1990, and December 29, 1989, respectively. These years were each 52 weeks in length.

Basis of consolidation:

The consolidated financial statements include the accounts of the Company and BAC. All significant intercompany accounts and transactions have been eliminated.

Cash and cash equivalents:

Cash and cash equivalents of the Company are composed of demand deposits with banks and short-term cash investments with remaining maturities of less than three months from the date of purchase by the Company.

Inventories:

Inventories of food, paper products and supplies are stated at the lower of cost or market on a first-in, first-out basis.

Property and equipment, depreciation and amortization:

Property and equipment are stated at cost. Depreciation and amortization are provided by charges to operations over the estimated useful lives of the assets by the straight-line method.

Deferred charges and related amortization:

Deferred charges include noncompetition and consulting agreements which are amortized over six years. Loan costs are deferred and amortized over the term of the respective agreements. Franchise rights are amortized over the remaining life of the franchise agreements. Preopening costs are

amortized over a two year period. Other deferred charges are amortized over various periods up to seven years. All amortization is provided by the straight-line method.

Franchise fees and royalties:

The Company recognizes initial franchise fees upon fulfillment of all significant obligations to the franchisee. Royalties from franchisees are accrued as earned.

Common stock:

On February 24, 1992, the Company declared a three-for-two stock split, effected in the form of a 50% stock dividend and distributable on March 20, 1992 to holders of record as of March 5, 1992. The Company paid cash in lieu of the distribution of fractional shares.

All share and per share amounts have been adjusted to give effect to the three-for-two stock splits effected on March 20, 1992 and March 26, 1991.

Earnings per share:

Earnings per share are computed on the weighted average number of shares outstanding for each of the years in the three year period ended December 27, 1991.

Income taxes:

The Company has adopted the Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," ("SFAS 96") issued by the Financial Accounting Standards Board.

Reclassifications:

Certain reclassifications of 1990 and 1989 amounts have been made to conform to the 1991 presentation.

2 Accounts receivable:

	1991	1990
	(thousands):	
Trade	\$ 300	\$ 252
Other	1,638	1,125
	1,938	1,377
Less allowance for doubtful collection	(234)	(317)
	<u>\$1,704</u>	<u>\$1,060</u>

Notes, Continued**3 Property and equipment:**

	1991	1990
	(thousands)	
Land and improvements	\$ 4,929	\$ 4,310
Leasehold improvements	79,418	67,582
Buildings and improvements	8,493	7,719
Furniture, fixtures and equipment	46,335	48,259
Property leased under capital leases (Note 7)	1,486	1,895
	<u>140,661</u>	<u>129,765</u>
Less accumulated depreciation and amortization	(48,039)	(47,791)
	<u>92,622</u>	<u>81,974</u>
Construction in progress	1,352	1,194
	<u>\$ 93,974</u>	<u>\$ 83,168</u>

4 Notes receivable:

The Company's notes receivable at December 27, 1991, arose principally as a result of the sale of restaurants, advances to joint ventures and managed properties and a line of credit established with the International Association of ShowBiz Pizza Place and Pizza Time Theatre Restaurants, a related party (Note 19). The notes have various terms, but most are payable in monthly installments of principal and interest through 1996, with interest rates ranging from prime to 15%. Substantially all notes are collateralized by the related property and equipment. Balances of notes receivable are net of an allowance for doubtful collection of \$320,000 and \$352,000 in 1991 and 1990, respectively.

5 Deferred charges:

	1991	1990
	(thousands)	
Franchise rights	\$ 5,000	\$ 5,000
Consulting contracts	643	643
Loan costs	1,461	1,430
Information system development costs	1,369	1,369
Preopening costs	1,671	729
Other	1,192	1,097
	<u>11,336</u>	<u>10,268</u>
Less accumulated amortization	(6,424)	(4,838)
	<u>\$ 4,912</u>	<u>\$ 5,430</u>

6 Accounts payable and accrued liabilities:

	1991	1990
	(thousands)	
Accounts payable	\$ 8,122	\$ 6,626
Taxes, other than income	2,529	2,433
Salaries and wages	5,450	4,823
Insurance	2,331	2,331
Other	1,899	1,913
	<u>\$20,331</u>	<u>\$18,126</u>

7 Leases:

The Company leases certain restaurants and related property and equipment under operating and capital leases. All leases require the Company to pay property taxes, insurance and maintenance of the leased assets. The leases generally have initial terms of seven to 30 years with various renewal options.

Following is a summary of property leased under capital leases:

	1991	1990
	(thousands)	
Land and buildings	\$1,486	\$1,486
Equipment		409
	<u>1,486</u>	<u>1,895</u>
Less accumulated depreciation	(503)	(728)
	<u>\$ 983</u>	<u>\$1,167</u>

Scheduled annual maturities of the obligations for capital and operating leases as of December 27, 1991, are:

Years	Capital	Operating
	(thousands)	
1992	\$ 312	\$ 18,713
1993	316	18,911
1994	323	18,009
1995	325	17,311
1996	342	16,203
1997-2007 (aggregate payments)	<u>2,229</u>	<u>59,429</u>
Minimum future lease payments	3,847	\$148,576
Less amounts representing interest	(2,391)	
Present value of minimum future lease payments	<u>1,456</u>	
Less current portion	(24)	
	<u>\$ 1,432</u>	

Rent expense:

Certain of the Company's real estate leases, both capital and operating, require payment of contingent rent in the event defined revenues exceed specified levels.

The Company's rent expense is comprised of the following:

	1991	1990	1989
	(thousands)		
Minimum	\$17,530	\$15,313	\$16,114
Contingent	389	279	162
	<u>\$17,919</u>	<u>\$15,592</u>	<u>\$16,276</u>

8 Long-term debt:

	1991	1990
	(thousands)	
Term loans payable to related parties, at prime, due September 1993 (Note 19)	\$ 3,337	\$ 8,638
Floating rate subordinated bonds, at prime, due July 1993 (Note 19)	6,313	6,313
Debentures, 8%, due July 1993	3,598	3,598
Obligations under capital leases (Note 7)	1,456	1,575
Mortgage notes, collateralized by real estate, 14.0% to 14.5%, prepaid in 1991		1,710
Industrial Revenue Bonds, 13.5%, due July 1997	615	
Revolving bank loan, at prime or LIBOR plus 1.25% due April 1994	4,000	3,700
	19,319	25,534
Less current portion	(892)	(1,141)
Less discount on revolving loan and subordinated bonds	(398)	(702)
	<u>\$18,029</u>	<u>\$23,691</u>

As of December 27, 1991, scheduled annual maturities of all long-term debt (exclusive of obligations under capital leases) are as follows (thousands):

Years	Amount
1992	\$ 622
1993	12,843
1994	4,000
	<u>\$17,465</u>

The Company's floating rate subordinated bonds (the "Bonds") and the term loans payable to related parties are subordinate to a revolving bank loan. The principal on the term loans payable to a related party is payable at an aggregate amount of \$63,190 per quarter. As a result of the discount attributable to the issuance of warrants in connection with the bank loan and Bonds, the effective rate of interest is 14.8% varying with prime, 6.5% at December 27, 1991.

The Company's revolving loan agreement provides the Company with a credit line of up to \$15 million due April 1994. Interest is provided at a rate equal to prime or, at the Company's option, up to the 60-day London Interbank Offered Rate ("LIBOR") plus 1.5% and reduces to 1.25% in 1992. A ¼% commitment fee is payable on any unused credit line. The Company is required to comply with certain financial ratio tests and capital expenditure limitations during the term of the agreement.

In April 1991, the Company prepaid approximately \$4.9 million in term loans payable to The Hallwood Group Incorporated ("Hallwood"), a related party. In February 1992, the Company prepaid approximately \$1.6 million in term loans payable to Hallwood which had been assigned to them by Integra — A Hotel and Restaurant Company ("Integra"), also a related party.

In June 1991, the Company reacquired title to certain non-operating real property from Integra, in consideration for the Company's assumption of \$710,000 in Industrial Revenue Bonds on which the Company had previously been directly liable and which were secured by a mortgage on the property. The Company also received net cash of approximately \$35,000. In January 1992, the Company prepaid the \$615,000 principal balance remaining on these bonds.

In February 1992, the Company gave notice that it elects to redeem in April 1992 its 8% debentures due July 1, 1993 in the aggregate principal amount of \$3,598,000.

The Company has a substantial portion of its assets pledged as collateral for bank loans in 1991 including \$484,000 in notes receivable and property and equipment owned with a net book value of \$30,416,000.

9 Commitments and contingencies:

The Company has guaranteed certain obligations related to restaurant building and equipment leases. The underlying assets are collateral for the leases and the makers or assignees of all of the obligations are required to perform thereunder before the Company is required to fulfill its guarantee. In the event of default by the maker or assignee, the Company, in almost all cases, may make payment under the guarantees in accordance with the original payment schedule and has the right to locate potential buyers or subtenants for the assets. As of December 27, 1991, such guarantees aggregated approximately \$2,887,000.

10 Litigation:

The Company has been named as a defendant in litigation commenced by certain holders of warrants, options and preferred stock of Integra. The suit alleges that the Company, Integra and Hallwood violated state securities laws and breached fiduciary duties to the plaintiffs in connection with the Integra securities acquired by the plaintiffs from 1986 through 1988. The suit also alleges that the 1988 Integra distribution of ShowBiz common stock to holders of Integra common stock constituted a fraudulent transfer under Texas law. The plaintiffs have sought actual damages equal to the alleged loss of value of their Integra securities as well as a rescission of the Company's 1988 spin-off and punitive damages. The Company has denied the allegations made in such suit and intends to pursue its defense vigorously.

Certain other pending suits against the Company which the Company believes are not material in amount have arisen in the ordinary course of its business.

Notes, Continued**11 Redeemable preferred stock:**

As of December 27, 1991, the Company had 49,570 shares of its redeemable preferred stock authorized and outstanding. The stock pays dividends at \$4.80 per year, subject to a minimum cash flow test. As of December 27, 1991, one quarterly dividend, totaling \$59,486 or \$1.20 per share, was accrued but not yet paid. The redeemable preferred stock has been recorded at the net present value and is being accreted on the straight-line basis. The Company's restated articles of incorporation provide for the redemption of such shares at \$60 per share in 2005. During the continuation of any event of default by the Company, the preferred shareholders shall be able to elect a majority of the directors of the Company.

12 Shareholders' equity:

Effective March 26, 1991, the Company amended its articles of incorporation to establish the number of authorized shares at 20,000,000 and effected a three-for-two stock split in the form of a 50% stock dividend. In February 1992, the Company declared a three-for-two stock split in the form of a 50% stock dividend to shareholders of record on March 5, 1992, payable on March 20, 1992. Accordingly, the 8,358,858 and 5,491,298 shares issued at December 27, 1991 and December 28, 1990, respectively, and all other share and per share data of the Company have been restated to reflect these stock splits.

In May 1990, the Company's Board of Directors approved an acceleration of exercise provisions of warrants to purchase 2,875,500 shares of the Company's common stock at an exercise price of \$1.78 per share. The exercise date of the warrants was accelerated from May 1993 to July 1990, and thereafter warrants to purchase 1,946,249 shares were exercised (Note 19). At December 27, 1991, the Company had warrants to purchase 929,251 shares of common stock outstanding.

13 Earnings per common share:

Earnings per common and common equivalent share were computed based on the weighted average number of common and common equivalent shares outstanding during the period. Net income available per common share has been adjusted for the items indicated below, and earnings per common and common equivalent share (adjusted for stock splits effected March 20, 1992 and March 26, 1991) were computed as follows (thousands, except per share data):

	1991	1990	1989
Net income	\$17,883	\$13,221	\$ 2,454
Accretion of redeemable preferred stock	(103)	(103)	(103)
Redeemable preferred stock dividends	(238)	(238)	(238)
Adjusted income applicable to common shares	<u>\$17,542</u>	<u>\$12,880</u>	<u>\$ 2,113</u>
Primary:			
Weighted average common shares outstanding	12,448	11,376	9,876
Common stock equivalents:			
Stock purchase warrants	840	1,471	1,750
Stock purchase options	412	407	539
Weighted average shares outstanding	<u>13,700</u>	<u>13,254</u>	<u>12,165</u>
Earnings per common and common equivalent share	<u>\$ 1.28</u>	<u>\$.97</u>	<u>\$.17</u>
Fully diluted:			
Weighted average common shares outstanding	12,448	11,376	9,876
Common stock equivalents:			
Stock purchase warrants	852	1,553	2,178
Stock purchase options	428	438	657
Weighted average shares outstanding	<u>13,728</u>	<u>13,367</u>	<u>12,711</u>
Earnings per common and common equivalent share	<u>\$ 1.28</u>	<u>\$.96</u>	<u>\$.17</u>

14 Franchise fees and royalties:

At March 13, 1992, 50 ShowBiz restaurants and 61 Chuck E. Cheese's restaurants were operated by a total of 56 different franchisees. The ShowBiz and Chuck E. Cheese's standard franchise agreements grant to the franchisee the right to develop and operate a restaurant and use the associated trade names, trademarks, and service marks within the standards and guidelines established by the Company.

Initial franchise fees were \$112,500, \$133,000 and \$75,000, in 1991, 1990 and 1989, respectively.

15 Cost of sales:

	1991	1990	1989
	(thousands)		
Food, beverage and related supplies	\$ 38,629	\$35,101	\$34,086
Games and merchandise	8,972	7,459	6,809
Labor	55,553	47,863	44,433
	<u>\$103,154</u>	<u>\$90,423</u>	<u>\$85,328</u>

16 Income taxes:

In 1989, the Company retroactively applied SFAS 96 which requires establishment of deferred tax liabilities and assets, as appropriate, for all temporary differences caused when the tax basis of an asset or liability differs from that reported in the financial statement. Application of SFAS 96 did not result in the establishment of a deferred tax liability or asset due to the availability of net operating loss carryforwards from prior years.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109") which requires the establishment of a deferred tax asset or liability for the recognition of future deductions or taxable amounts, and operating loss and tax credit carryforwards. Deferred tax expense or benefit is recognized as a result of the change in the asset or liability during a year. Adoption is required for fiscal years beginning after December 15, 1992. The initial effect of applying SFAS 109 may be either reported as the cumulative effect of a change in accounting principle or through retroactive restatement of the financial statements of prior years.

The Company plans to adopt SFAS 109 beginning in 1992 and retroactively restate the financial statements of prior years. Had the Company adopted SFAS 109 in 1991, the financial statements would have been stated as follows (thousands, except per share data):

	1991	1990	1989
Deferred tax asset	\$ 44,284	\$47,239	\$51,321
Shareholders' equity	115,500	99,973	86,957
Income before income taxes	\$ 18,933	\$13,899	\$ 2,817
Income taxes:			
Current expense	1,050	678	363
Deferred expense	6,285	4,769	712
	<u>7,335</u>	<u>5,447</u>	<u>1,075</u>
Net income	<u>\$ 11,598</u>	<u>\$ 8,452</u>	<u>\$ 1,742</u>
Fully diluted earnings per share	<u>\$.82</u>	<u>\$.61</u>	<u>\$.11</u>

As of December 27, 1991, the Company has net operating loss carryforwards of approximately \$110.6 million for financial statement purposes and \$110.9 million for federal income tax purposes, which expire through 2002. While the Company believes that it is likely that it will realize these carryforwards, there can be no assurance that they will be available to such extent.

As of December 27, 1991, the Company has investment tax credit and jobs tax credit carryforwards totaling \$5,250,000 and \$416,000, respectively, which have expiration dates through 2000 and 2002, respectively. In addition, as of

December 27, 1991, the Company had an alternative minimum tax credit carryforward of approximately \$548,000.

Current tax laws and regulations relating to substantial changes in control may limit the utilization of net operating loss and tax credit carryforwards in any one year. As of March 13, 1992, no limitation of such carryforwards has occurred.

A reconciliation of the statutory rate to the actual income taxes provided is as follows:

	1991	1990	1989
	(thousands)		
Computed tax at the statutory rate ⁽¹⁾	\$ 6,437	\$ 4,726	\$ 958
Net operating loss carryforwards	(5,990)	(4,529)	(778)
State income taxes	603	481	183
Income taxes provided	<u>\$ 1,050</u>	<u>\$ 678</u>	<u>\$ 363</u>

(1) 34% in 1991, 1990 and 1989.

17 Significant transaction:

In September 1989, the Company recorded a reserve of \$4,532,000 for the closing of 31 Monterey House restaurants. The Company has assets remaining to be sold of approximately \$677,000 recorded as other assets associated with these closings.

18 Supplemental cash flow information:

	1991	1990	1989
	(thousands)		
Cash paid during the year for:			
Interest	\$1,923	\$3,420	\$ 4,364
Income taxes	1,253	895	339
Supplemental schedule of noncash investing and financing activities:			
Notes receivable and other assets cancelled in connection with the acquisition of property and equipment	1,049	1,001	24,763
Liabilities assumed or incurred in connection with the acquisition of property and equipment	675	388	372
Investment reclassified in connection with the acquisition of property and equipment			1,181
Reduction of liabilities in connection with the disposition of property and equipment and other assets		189	495
Other liabilities cancelled in connection with the acquisition of property and equipment		439	
Cancellation of note payable and other liabilities in connection with the acquisition of property and equipment		803	
Notes received in connection with the disposition of property and equipment	350		

Notes, Continued**19 Related party transactions:**

Hallwood is the beneficial owner of 21.3% of the outstanding common stock of the Company and holds 75.5% of the Company's floating rate subordinated bonds. The directors of Hallwood serve as a majority of the directors of the Company and Integra.

In 1990, the Company prepaid \$2,968,000 of principal on its term loans to Integra and converted part of the remaining loans into a term loan to Hallwood in the principal amount of \$4,971,000. The new loan contained substantially the same terms as the loans converted. These transactions occurred concurrently with Integra's redemption of certain debt to Hallwood. Integra also assigned to Hallwood a term loan from the Company in the principal amount of \$265,000. In April 1991, the Company prepaid the remaining principal balance of approximately \$4.9 million in term loans payable to Hallwood. At December 27, 1991, the Company had term loans payable to Integra in the aggregate principal amount of \$3,337,000.

Prior to the above transactions, in July 1990, the Company made a prepayment to Integra in the amount of \$1,000,000. In August 1990, the Company assumed certain data processing leases and acquired equipment from Integra for the cancellation of a note payable by the Company to Integra of \$674,000.

During 1989 and 1990, the Company and Integra were parties to various agreements relating to the separate operations of the two companies. These agreements provided for the sharing of certain ongoing administrative costs and the Company's sublease of a portion of the home office building from Integra. In December 1990, the sublease agreement among Integra and the Company was terminated. A new agreement was entered into among the Company, Hallwood, Integra and the home office landlord in which the Company assumed all obligations of the lease in consideration for reductions in rent. In consideration for such rent reductions resulting from Hallwood's negotiation of the new agreement, the Company assigned to Hallwood its sublease interest in rentals of space in the home office building subleased to Integra with a fair value of approximately \$120,000 per year.

Although the Company operates independently of Integra, Integra has guaranteed a portion of the Company's outstanding debt and lease obligations.

Integra has made charges to the Company as follows:

	1991	1990	1989
	(thousands)		
Interest	\$ 302	\$1,142	\$1,608
Corporate administrative costs	(140)	1,248	1,535

The Company had payables to Integra for interest and administrative services of \$85,000 at December 28, 1990.

Hallwood has made charges to the Company as follows:

	1991	1990	1989
	(thousands)		
Consulting services	\$125	\$125	\$125
Interest	541	567	524

In 1990, Hallwood exercised warrants to purchase 1,818,274 shares of common stock. At December 27, 1991, Hallwood and its affiliated designee held remaining warrants aggregating 909,136 shares of the Company's common stock. The exercise price of the warrants, both exercised and held, was \$1.78 per share.

In November 1991, the Company entered into an agreement with a franchisee to form a joint venture to own and operate two restaurant properties. The Company's ownership in the venture is initially 25% and increases up to 35% in six years. The Company advanced \$1.2 million to the venture through a secured promissory note. Principal and interest of 12% is payable in monthly installments through October 1996. The Company also has miscellaneous accounts receivable from the venture of approximately \$11,000.

During 1991, the Company advanced approximately \$215,000 to a joint venture partner to fund the remodels of three restaurant properties in which the Company has a 50% joint venture interest. These notes receivable pay interest at prime and are to be repaid through the partner's interest in the available cash flow of the properties. The Company also has miscellaneous accounts receivable from the venture of approximately \$65,000.

In September 1990, the Company entered into an agreement to grant the International Association of ShowBiz Pizza Place and Pizza Time Theatre Restaurants (the "Association") a \$2.0 million line of credit, at prime, which allowed the Association to accelerate the conversion of all robotic characters into Chuck E. Cheese's characters and to begin improvements to existing Chuck E. Cheese's characters. The Association was established to develop and improve entertainment attractions and pay system-wide advertising. One officer of the Association is also an officer of the Company. At December 27, 1991, \$858,000 was outstanding under the line of credit.

During 1988, the Company recognized a \$400,000 receivable arising from the Company's claim to a refund of prior year contributions to Animated Entertainment Fund (AEF), a Texas non-profit corporation which was established

to develop and improve entertainment attractions. AEF settled this receivable during 1991 through the distribution of fixed assets. In 1990, the Company advanced \$108,000 to the AEF which was repaid in 1991. Three officers of the AEF are also officers of the Company.

The Company had an 18% interest as a limited partner in ShowBiz Pizza Place — Denver, Ltd. The Company also held a note receivable of approximately \$649,000 at an interest rate of 15% or prime plus 3%, if greater. The Company previously leased the restaurant building and equipment from ShowBiz Pizza Place — Denver, Ltd, but in June 1991, discharged the unpaid balance of the note receivable in exchange for the Company's acquisition of real and personal property of a Chuck E. Cheese's restaurant which secured the note. Integra acted as general partner and income or losses were allocated 1% to Integra and 99% to the limited partners. Integra also received a management fee of 5% of distributable cash flow and had guaranteed the repayment of the loan to the Company.

20 Employee benefit plans:

The Company has employee benefit plans that include:

- a) executive bonus compensation plans based on the performance of the Company and certain of its senior officers; b) a non-statutory stock option plan and c) a stock grant plan.

Under the stock option plan, the aggregate number of shares of the Company's common stock which may be issued may not exceed 848,025 shares which must be granted before October 18, 1993. The exercise price for options granted under the plan may not be less than the fair market value of the Company's common stock at date of grant. Options may not be exercised until the employee has been continuously employed at least one year after the date of grant. Options which expire or terminate may be regranted under the plan.

	1991	1990	1989
Options outstanding, beginning of year	504,618	550,688	
Granted (\$2.45-\$19.72 per share)	82,050	74,363	560,250
Exercised	(136,105)	(112,445)	
Terminated	(5,175)	(7,988)	(9,562)
Options outstanding, end of year	<u>445,388</u>	<u>504,618</u>	<u>550,688</u>
Options:			
Exercisable	363,338	430,255	
Available for grant	154,087	230,962	72,338

In January 1992, the Board of Directors granted 153,225 additional options at an exercise price of \$23.83 per share.

Under the terms of the stock grant plan, begun in 1989, a maximum of 731,250 shares of the Company's common stock may be awarded to senior executives of the Company. Compensation expense recognized by the Company pursuant to this plan was \$438,000, \$373,000 and \$210,000 in 1991, 1990 and 1989, respectively. An aggregate of 13,500, 11,625, and 672,582 shares were awarded pursuant to the plan in 1991, 1990, and 1989 respectively. All shares were awarded at market value on the date of grant and are subject to forfeiture upon termination of the participant's employment by the Company over vesting periods ranging from 2 years to 6 years. The shares are nontransferable during the vesting periods.

In January 1992, the Board of Directors accelerated the vesting provisions of 350,955 shares of common stock granted in 1989 to the Company's Chairman of the Board and Chief Executive Officer. Concurrently, 112,053 shares were surrendered to the Company to satisfy federal income tax withholding obligations. The remaining 238,902 shares have been granted to an irrevocable trust to secure his continuing obligations to the Company under his employment and consulting agreements.

The Company has adopted the ShowBiz 401(k) Retirement and Savings Plan, to which it may at its discretion make an annual contribution out of its current or accumulated earnings of up to the lesser of 50% of employee contributions or \$750 per employee. Contributions by the Company may be made in the form of its common stock or in cash. The Company made no contributions during 1991, 1990 or 1989.

Independent Auditors' Report

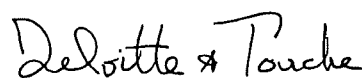
Board of Directors and Shareholders
ShowBiz Pizza Time, Inc.
Irving, Texas

We have audited the accompanying consolidated balance sheets of ShowBiz Pizza Time, Inc. and subsidiary as of December 27, 1991 and December 28, 1990 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years (52 weeks) in the period ended December 27, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing

the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ShowBiz Pizza Time, Inc. and subsidiary as of December 27, 1991 and December 28, 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1991, in conformity with generally accepted accounting principles.



DELOITTE & TOUCHE
Dallas, Texas
March 13, 1992



The quality of our operations - clean, safe facilities, consistently good food, helpful staff, and fully operational games - determines the quality of our guests' experience. Our management and staff strive to exceed guests' expectations.

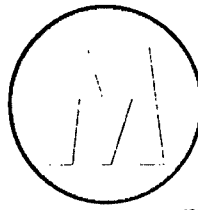
At left, Matt Drennan, vice-president, regional manager; Christl McCurdy, dining room team leader, Irving, Texas; Jon Nichols, general manager, Fairfax, Virginia; and Paul Scapecchi, district manager, Florida, helped put ShowBiz at the top of the industry by making us tops with our guests.

At Chuck E. Cheese's, entertainment is an exacting process of transforming mechanical characters and simple games into engaging phenomena that capture a child's curiosity, invite his imagination and strengthen his motor skills.

At right, standing: Shelly Atkins, entertainment/design coordinator; Ron Make, vice-president, director of franchise operations; and seated: Farshid Khoshgarn, director of technical support; Marty Giardina, vice-president, regional manager; and Gene Gramm, senior vice-president, director of concept development and games management, are among the professionals who ensure quality in the development of our entertainment, as well as in its presentations in our restaurants.



"Entertainment enhances our guests' fun."



aking fun for our guests is the work of our entertainment group. Our staff has expertise in stage and costume design, musical arrangements, video production, game design and selection, and engineering. Their skills transform mechanical characters and simple games into engaging attractions that can capture a child's curiosity and invite his imagination. And while our skill games and stage shows are designed with our young friends in mind, it is not by chance that they often appeal to our adult guests. It is merely a reflection of the careful planning and execution of our brand of fun.

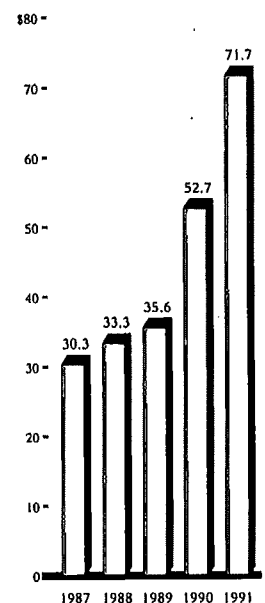
Our entertainment is a well planned and carefully executed process.

Our games are chosen for their ability to amuse and challenge. The token that brings the game into play, the ticket that rewards a child regardless of his performance, and the chance to select a special gift...these add touches of magic to the fun of our games. Our stage shows, which are developed around seasonal and topical themes, feature music carefully produced to entertain and amuse guests of all ages. The result of this exacting procedure is a festival of light and sound to delight all our guests.

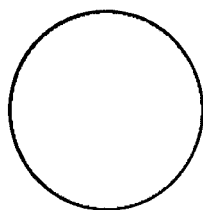
Our entertainment is a well planned and carefully executed process so that our guests are treated to a fun-filled and magical event.

Shareholders' Equity

(in millions)



“No train, no gain”



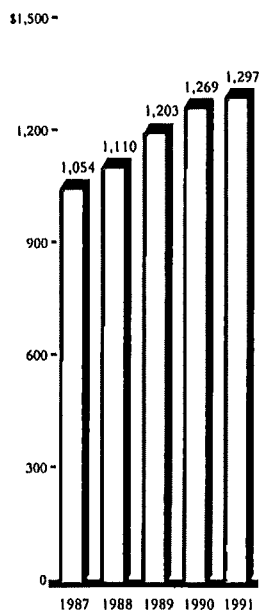
he greatest asset of any organization is its people. For us, it's our people who create the magic in our restaurants every day. And while making magic isn't easy, it's the most important element in the training of our “star cast” and managers. That's why we established Chuck E. Cheese's University in 1990.

The development of our people is an investment in our future.

Each manager-in-training is a star in his or her own right, and has a commitment to excellence. Our Chuck E. Cheese's University staff develops this outstanding potential through an intensive 21-day hands-on training program in the art of guest relations, the science of food quality and the magic of entertainment. Technical managers, who ensure the consistent operation of the games, rides and animated stage shows, undertake a 14-day course focusing on the “nuts and bolts” to provide every guest with the highest quality experience in every restaurant. Each Chuck E. Cheese's is a branch campus of the University, where managers serve as professors in the “School of Kitchen” and “School of Service” for all of their “star cast” members.

We view the development of our people as an investment in our future. When the best people cultivate those with the brightest promise, excellence becomes reality.

**Average Annual Sales
of ShowBiz/
Chuck E. Cheese's**
(in thousands)

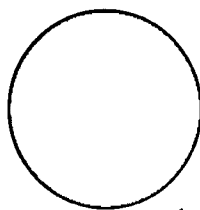




Every player on our team has a specific role in delivering a quality experience to our guests. The consistency and quality of our cast's performance are ensured through the curricula at Chuck E. Cheese's University.

At left, Cindy Baird, general manager, Indianapolis; Jim Newberry, vice-president, director of training and entertainment; Greg Barton, regional manager; Mark Flores, district manager, California; and Todd Horchner, concept training manager, know well that the investment made in developing people will be returned many times over.

"Your Neighborhood Tex-Mex Restaurant"



he performance of our 27

Monterey's Tex-Mex Cafes again

significantly improved in 1991. We

believe Monterey's success reflects our

corporate vision in developing the concept of an

enjoyable family dining experience. To give families



Chris Pettie, director of recruiting and training; Lou Porry, area supervisor; Curt Glowacki, vice-president, director of operations; Gerry Wetmore, area supervisor; and Kirk Williamson, area supervisor.

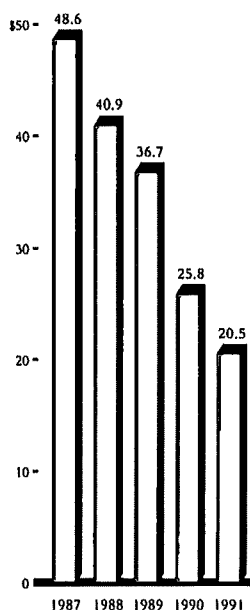
the greatest value for their dollar, Monterey's offers moderately-priced Tex-Mex favorites in generously-sized portions. Our guests feel welcomed and valued when they visit our updated facilities. They are treated to outstanding service and uncompromising food quality in an upbeat and airy atmosphere.

To enhance our guests' dining experience, we cater to younger family members by providing pre-meal activities and after-dinner treats. We also provide ongoing variety and interest by updating our menu throughout the year.

As Monterey's business grows, we'll remain focused by providing good food quickly and inexpensively. We'll also continue to listen carefully to our guests, because our success has shown that opportunity sometimes knocks softly.

Long-Term Obligations

(in millions)



Officers and Directors

Principal Officers

Richard M. Frank
Chairman & Chief Executive Officer

John T. Spaight
President & Chief Operating Officer

Richard T. Huston
*Executive Vice President,
Marketing & Development*

Michael H. Magusiak
*Executive Vice President,
Treasurer & Chief Financial Officer*

Ronald E. Saupe
*Executive Vice President,
General Counsel & Secretary*

Gene E. Cramm
*Senior Vice President,
Director of Games & Concept
Development*

Mathew P. Drennan
*Regional Vice President
Operations*

Martin J. Giardina
*Regional Vice President
Operations*

Curt Glowacki
*Vice President
Monterey's Tex-Mex Cafe Operations*

Ronald L. Hake
*Vice President
Director of Franchise Operations*

Dennis P. Murphy
*Vice President
Controller*

James M. Newberry
*Vice President,
Management Training & Entertainment*

John E. Rose III
*Vice President
Construction*

Alice M. Winters
*Vice President
Real Estate*

Board of Directors

Richard M. Frank
Chairman & Chief Executive Officer

Anthony J. Gumbiner
*Chairman & Chief Executive Officer—
The Hallwood Group Incorporated*

Brian M. Troup
*President & Chief Operating Officer—
The Hallwood Group Incorporated*

Michael H. Magusiak
*Executive Vice President,
Treasurer & Chief Financial Officer*

Charles A. Crocco, Jr.
Partner—Lumley & Crocco

Robert L. Lynch
*Vice Chairman—The Hallwood Group
Incorporated*

J. Thomas Talbot
The Talbot Company

Corporate Information

Executive Offices

4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015
214/253-8507

Annual Meeting Of Stockholders

Friday, May 29, 1992 9:00 a.m.
ShowBiz Pizza Place
13125 Montfort
Dallas, Texas 75240

Independent Auditors

Deloitte & Touche
500 N. Akard
Suite 1400
Dallas, Texas 75201

Stock Transfer Agent & Registrar

The First National Bank of Boston
150 Royall Street
Canton, Massachusetts 02021
617/575-2900

Stock Listing

The Company's common stock is traded on the NASDAQ National Market System under the symbol "SHBZ".

10-K Availability

The Company will furnish to any stockholder, without charge, a copy of the Company's annual report filed with the Securities and Exchange Commission on Form 10-K for the 1991 fiscal year (including the financial statements and schedules thereto) upon written request from the stockholder addressed to:

Secretary
ShowBiz Pizza Time, Inc.
4441 West Airport Freeway
P.O. Box 152077
Irving, Texas 75015



ShowBiz Pizza Time, Inc.
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Irving, Texas 75015
214/258-8507